

**REPORT OF THE AUDIT OF THE  
MAGOFFIN COUNTY  
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period  
July 1, 2008 Through June 30, 2009**



**CRIT LUALLEN  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MAGOFFIN COUNTY**  
**SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period**  
**July 1, 2008 Through June 30, 2009**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Magoffin County Sheriff for the period July 1, 2008 through June 30, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$3,006,070 for the districts for 2008 taxes, retaining commissions of \$125,674 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,877,224 to the districts for 2008 taxes. Taxes of \$109 are due to the districts from the Sheriff and refunds of \$143 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff Failed To Collect \$359 Of Receivables Due And Pay \$17,330 Of Liabilities Due For The 2003 And 2004 Tax Settlements
- The Sheriff's Office Lack Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Charles E. Hardin, Magoffin County Judge/Executive

Honorable Randall Jordan, Magoffin County Sheriff

Members of the Magoffin County Fiscal Court

Independent Auditor's Report

We have audited the Magoffin County Sheriff's Settlement - 2008 Taxes for the period July 1, 2008 through June 30, 2009. This tax settlement is the responsibility of the Magoffin County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Magoffin County Sheriff's taxes charged, credited, and paid for the period July 1, 2008 through June 30, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 19, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Charles E. Hardin, Magoffin County Judge/Executive  
Honorable Randall Jordan, Magoffin County Sheriff  
Members of the Magoffin County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Failed To Collect \$359 Of Receivables Due And Pay \$17,330 Of Liabilities Due For The 2003 And 2004 Tax Settlements
- The Sheriff's Office Lack Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

November 19, 2009



MAGOFFIN COUNTY  
 RANDALL JORDAN, SHERIFF  
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period July 1, 2008 Through June 30, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 519,147	\$ 315,069	\$ 656,990	\$ 218,400
Tangible Personal Property	247,841	101,773	215,030	235,108
Franchise Taxes	150,853	63,555	134,249	
Fire Protection	2,965			
Additional Billings	233	152	327	102
Oil and Gas Property Taxes	100,950	61,312	127,896	42,488
Penalties	12,257	6,869	14,354	6,933
Adjusted to Sheriff's Receipt	(414)	(145)	(320)	(118)
Gross Chargeable to Sheriff	<u>1,033,832</u>	<u>548,585</u>	<u>1,148,526</u>	<u>502,913</u>
<u>Credits</u>				
Exonerations	15,020	9,115	19,006	6,318
Discounts	10,525	5,717	11,957	4,319
Delinquents:				
Real Estate	33,973	20,581	42,916	14,266
Tangible Personal Property	7,738	3,177	6,713	6,122
Franchise Taxes	<u>3,813</u>	<u>2,106</u>	<u>4,404</u>	
Total Credits	<u>71,069</u>	<u>40,696</u>	<u>84,996</u>	<u>31,025</u>
Taxes Collected	962,763	507,889	1,063,530	471,888
Less: Commissions *	<u>41,205</u>	<u>21,585</u>	<u>42,541</u>	<u>20,343</u>
Taxes Due	921,558	486,304	1,020,989	451,545
Taxes Paid	921,089	485,504	1,019,225	451,406
Refunds (Current and Prior Year)	<u>396</u>	<u>811</u>	<u>1,859</u>	<u>140</u>
Due Districts or		**		
(Refunds Due Sheriff)				
as of Completion of Audit	<u>\$ 73</u>	<u>\$ (11)</u>	<u>\$ (95)</u>	<u>\$ (1)</u>

The accompanying notes are an integral part of this financial statement.

MAGOFFIN COUNTY  
 RANDALL JORDAN, SHERIFF  
 SHERIFF'S SETTLEMENT - 2009 TAXES  
 For The Period July 1, 2008 Through June 30, 2009  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	1,932,540
4% on	\$	1,063,530

\*\* Special Taxing Districts:

Library District	\$	(24)
Health District		36
Extension District		(22)
Soil Conversation District		(1)
		<hr/>

Due Districts or

(Refunds Due Sheriff)	\$	<u>(11)</u>
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MAGOFFIN COUNTY  
NOTES TO FINANCIAL STATEMENT

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits -

The Magoffin County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MAGOFFIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
June 30, 2009  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Magoffin County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 25, 2008 through June 30, 2009.

Note 4. Interest Income

The Magoffin County Sheriff earned \$164 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Magoffin County Sheriff collected \$32,179 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Magoffin County Sheriff collected \$2,815 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Charles E. Hardin, Magoffin County Judge/Executive  
Honorable Randall Jordan, Magoffin County Sheriff  
Members of the Magoffin County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Magoffin County Sheriff's Settlement - 2008 Taxes for the period July 1, 2008 through June 30, 2009, and have issued our report thereon dated November 19, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Magoffin County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Magoffin County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Magoffin County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lack Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Magoffin County Sheriff's Settlement - 2008 Taxes for the period July 1, 2008 through June 30, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Failed To Collect \$359 Of Receivables Due And Pay \$17,330 Of Liabilities Due For The 2003 And 2004 Tax Settlements

The Magoffin County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Magoffin County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

November 19, 2009



## COMMENTS AND RECOMMENDATIONS



MAGOFFIN COUNTY  
RANDALL JORDAN, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period July 1, 2008 Through June 30, 2009

STATE LAWS AND REGULATIONS:

The Sheriff Failed To Collect \$359 Of Receivables Due And Pay \$17,330 Of Liabilities Due For The 2003 And 2004 Tax Settlements

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For the 2003 tax audit, the school district was underpaid \$23,400. The Sheriff has applied \$13,480 from his 2003 Tax account leaving \$9,920 due the school district. In addition, \$817 is due as a taxpayer refund, and \$24 is due to the Sheriff's fee account. Also according to the 2003 tax audit, the Sheriff overpaid the other taxing districts in the amount of \$326 and should request a refund.

During our follow-up of the 2004 tax audit, we determined that the Sheriff had not collected receivables due the tax account or paid obligations due from the tax account as recommended in the prior year audit. The Sheriff should collect \$33 from the State and pay \$4,607 to the taxing districts and fee account per the 2004 Tax Settlement. Once this is done there should be a surplus of \$1,962, which should be left in an escrow account. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer.

We recommend the Sheriff immediately comply with the prior year audit recommendations and collect and pay the outstanding items.

*Sheriff's Response: I hope to get this cleared up soon.*

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lack Adequate Segregation of Duties

The Sheriff's office lacks adequate segregation of duties for receipts and disbursements. The bookkeeper collects and deposits all tax receipts, records all tax transactions, prepares the monthly tax reports and reconciles the bank account. Good internal controls dictate that the same employee should not be handling receipts, recording transactions, and preparing monthly reports. The following compensating controls could have been implemented to offset the lack of segregation of duties by, periodically comparing the daily deposit to the daily checkout and the receipts ledger. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger. In addition, the Sheriff should compare the monthly reports to the receipts and disbursements ledger for accuracy. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the monthly reports and ledgers.

*Sheriff's Response: I have been trying to do everything that is recommended, funds are not adequate to hire additional staff.*

